ANNUAL REPORT 1966

National Drug & Chemical Company of Canada Limited

and Subsidiary Companies

BOARD OF DIRECTORS

GRANT H. DAY, Q.C., Partner, Doheny, Day, Mackenzie & Lawrence, ***CHARLES GAVSIE,*** C.B.E., Q.C., Cate, Ogilvy, Bishop, Cope, Porteous & Hansard, ***HON. LOUIS P. GELINAS,*** M.B.E., Consultant, Geoffrion, Robert & Gélinas, Inc., ***R. B. HALEY,*** C.D., Vice President, Administration and Secretary, National Drug and Chemical Company of Canada Limited, ***MURRAY B. KOFFLER,*** Phm.B., President, Koffler Drug Stores, ***BERTRAM LOEB,*** Chairman of the Board and Chief Executive Officer, National Drug and Chemical Company of Canada Limited, ***T. R. McLAGAN,*** O.B.E., Chairman, Canada Steamship Lines Ltd., ***GORDON J. ODELL,*** President, National Drug and Chemical Company of Canada Limited, ***WARD C. PITFIELD,*** President, Pitfield, MacKay & Company Limited, ***CLAUDE ROBILLARD,*** P.Eng., President, Société Dyname Ltée.

OFFICERS

BERTRAM LOEB, Chairman of the Board and Chief Executive Officer, **GORDON J. ODELL,** President, **L. M. GOELMAN,** Vice President-Merchandising, **R. B. HALEY,** Vice President-Administration and Secretary, **L. A. ROBERTON,** Vice President-Finance and Treasurer, **L. D. SCHOENING,** Vice President-Manufacturing, **P. C. SEABY,** Vice President-Sales Agencies, (Miss) **N. K. HYLAND,** Assistant Secretary.

HEAD OFFICE

Suite 2222, 1 Place Ville Marie, Montreal 2, Quebec.

DISTRIBUTION CENTRES

Halifax, Sydney, Saint John, Moncton, Fredericton, Montreal, Ottawa, Toronto, Hamilton, Windsor, London, Fort William, Winnipeg, Saskatoon, Regina, Calgary, Edmonton, Vancouver. **Transfer Agents:** Montreal Trust Company. **Bankers:** The Royal Bank of Canada; Canadian Imperial Bank of Commerce; The Mercantile Bank of Canada. **Auditors:** Price Waterhouse & Co.

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at the Auditorium, Mezzanine 2, The Royal Bank Building, Place Ville Marie, at 10:00 a.m., on Tuesday, April 25th, 1967. Shareholders are cordially requested to attend. Those unable to be present are urged to exercise their voting rights by sending along their proxies.

Report of the Directors to our Shareholders

It is with considerable satisfaction that we report a year of solid progress in 1966, in accordance with our stated anticipations of a year ago.

Consolidated sales at $69,584,278 were $12,295,803 higher than the preceding year's sales of $57,288,475, an increase of 21%. The company's total earnings after taxes and minority interest was $291,822 (including gain of $166,897 on disposal of fixed assets) compared with $109,757 (including gain of $63,148 on disposal of fixed assets) for the preceding year, an improvement of $182,065, after providing for an increase in the allowance for doubtful accounts. Earnings per common share (after allowing for dividends on the Company's preferred shares) were 58 cents per share on the 412,865 outstanding common shares compared with 14 cents per share on the 411,502 shares outstanding at the end of 1965. Retained earnings of $3,871,906 at the end of the year showed a decrease of $163,501, after a write-off of $404,856 for goodwill.

Your Company has now completed its planned programme to improve distributive and other facilities. During the year, we have undertaken progressive measures to implement financial and other controls and to build depth into our organization's structure through strengthening management in many phases of our operations. It is expected that these refinements will enhance our profit picture in the current year.

After the merger of National Drug operations in the Maritime Provinces with Estey & Curtis Company, (Limited), was completed, as outlined in our 1965 report, the newly formed Eastern Drug Services Limited acquired all the outstanding shares of Provincial Wholesale Drugs Limited, a Halifax-based wholesale drug distributor. Substantial economies in the sales and distribution areas have been effected by reason of this acquisition. The consolidated net sales brought about by the merger and acquisition are roughly double the 1965 National Drug Eastern Division net sales figure.

Laurentian Laboratories was moved from the old facility in Montreal to its million-dollar facility at Pointe Claire, Quebec, and, as could be expected, production was interrupted. Operating losses were experienced in this manufacturing division — which is not unusual under the circumstances and is inherent when such a totally new programme is instituted. Laurentian Laboratories has embarked on an extensive programme of product development and new product ideas, in addition to its manufacturing role for both Company-owned products, such as the Chase Line and National household items, and those produced under private label or imprint contracts for the industry. Acquisition of new lines for manufacture under Company-ownership and distribution is under constant review and market research. Your management is confident that Laurentian Laboratories will prove to be a sound investment and a substantial generator of profit in future years.

As with many other companies in the business of distribution services, your Company is in the middle of a cost squeeze. Increasing costs of labour, warehousing, delivery and non-controllable expenses such as taxes and utilities continue to challenge management on almost a daily basis. Yet despite these factors, sales continue to rise and improved efficiencies and constant vigilance will enable us to increase profitability. Your management is also aware of the mounting pressures that have been brought about in many aspects of retailing in Canada, including the high cost of drugs, and are watching the situation closely. During this difficult period, the role of the distributor becomes increasingly more important in helping to maintain the position of the independent drug retailer and in bringing about the best possible purchasing situation for the consumer.

Despite the aforementioned facts, and notwithstanding intense competition at manufacturing and distributor levels, the outlook for the future remains favourable. The continuing need for the Company's goods and services, the improved calibre of personnel, and the upgrading of systems, procedures and controls, all augur well for the future. There is every reason to believe that Centennial Year will see further progress for your Company.

To our many customers, our personnel, suppliers, associates and shareholders, we record our gratitude for their loyalty and support during the year.

Berkowitz Lock

Chairman of the Board

G. J. Orley

President

National Drug and Chemica

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ASSETS

	January 3, 1967 $	January 4, 1966 $
CURRENT ASSETS		
Cash	37,376	28,363
Accounts receivable, less allowance for doubtful accounts	6,329,640	5,731,033
Inventories — at the lower of cost or net realizable value	10,610,458	8,880,914
Prepaid expenses	76,851	71,245
	17,054,325	14,711,555
FIXED ASSETS		
Property, plant and equipment — at cost	3,563,947	3,993,359
Accumulated depreciation	1,858,541	1,889,894
	1,705,406	2,103,465
UNAMORTIZED DEBENTURE DISCOUNT AND EXPENSES	50,230	54,728
GOODWILL, TRADE MARKS, etc.	1	1
	18,809,962	16,869,749

APPROVED ON BEHALF OF THE BOARD

Director

Director

CONSOLIDATED BALANCE SHEET AS AT JANUARY 3, 1967

LIABILITIES

	January 3, 1967 $	January 4, 1966 $
CURRENT LIABILITIES		
Bank loans and outstanding cheques	2,732,890	2,202,229
Accounts payable and accrued liabilities	4,894,512	4,617,931
Income taxes	55,731	64,453
Current portion of long-term debt	231,136	100,000
	7,914,269	6,984,613
LONG-TERM DEBT (note 2)	2,112,272	1,900,000
MINORITY INTEREST (note 3)	2,417,143	1,468,331
	12,443,684	10,352,944
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 4)	2,494,372	2,481,398
RETAINED EARNINGS	3,871,906	4,035,407
	6,366,278	6,516,805
	18,809,962	16,869,749

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of National Drug and Chemical Company of Canada Limited as at January 3, 1967 and the consolidated statements of earnings and retained earnings for the year ended on that date. Our examination of the financial statements of National Drug and Chemical Company of Canada Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings and retained earnings, when read in conjunction with the notes thereto, present fairly the financial position of the companies as at January 3, 1967 and the results of their operations for the year ended on that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co

Montreal, March 28, 1967

Chartered Accountants.

Consolidated Statement of Earnings
For the Year Ended January 3, 1967

	January 3, 1967	January 4, 1966
	$	$
SALES	69,584,278	57,288,475
COSTS AND OPERATING EXPENSES		
Cost of goods sold	60,918,754	50,287,518
Operating expenses	7,992,180	6,340,853
Depreciation on buildings and equipment	224,734	209,195
Interest on long-term debt	171,465	121,172
Amortization of debenture discount and expenses	4,498	4,498
Remuneration of directors and of officers who are directors	48,908	28,000
	69,360,539	56,991,236
OPERATING INCOME	223,739	297,239
INCOME TAXES — SUBSIDIARIES (note 5)	79,908	153,259
	143,831	143,980
MINORITY INTEREST SHARE OF PROFITS AND LOSSES OF SUBSIDIARIES	18,906	97,371
EARNINGS FROM OPERATIONS	124,925	46,609
GAIN ON DISPOSAL OF FIXED ASSETS (note 6)	166,897	63,148
EARNINGS FOR YEAR	291,822	109,757

Consolidated Statement of Retained Earnings
For the Year Ended January 3, 1967

	$	$
BALANCE — BEGINNING OF YEAR	4,035,407	3,976,227
Earnings for year	291,822	109,757
	4,327,229	4,085,984
Dividends — preferred shares	50,467	50,577
	4,276,762	4,035,407
Excess of cost of shares over net tangible assets of subsidiaries acquired during year	404,856	—
BALANCE — END OF YEAR	3,871,906	4,035,407

Notes to Consolidated Financial Statements For the Year Ended January 3, 1967

NOTE 1 — PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of all subsidiaries, including in the year ended January 3, 1967 Eastern Drug Services Limited which was formed under the terms of an agreement dated January 27, 1966 between National Drug and Chemical Company of Canada Limited and Estey & Curtis Company, (Limited) whereunder the former company acquired 50.1% of the outstanding common shares of Eastern Drug Services Limited. Effective January 5, 1966, Eastern Drug Services Limited acquired at book values all of the assets (other than certain fixed assets), of the wholesale drug business of both Estey & Curtis Company, (Limited) and of the maritime provinces region of National Drug and Chemical Company of Canada Limited. The purchase consideration was settled by the assumption of certain liabilities of each of the merging interests and by the issue of interest-bearing notes to be redeemed out of funds provided by future earnings.

The consolidated financial statements also include in the year ended January 3, 1967 the accounts of Provincial Wholesale Drugs Limited which was acquired by Eastern Drug Services Limited during 1966.

All intercompany items and transactions between subsidiaries, including profits in inventories, have been eliminated.

NOTE 2 — LONG-TERM DEBT:

National Drug and Chemical Company of Canada Limited:	
5¾% Series "A" serial debentures payable in annual instalments of $100,000 due May 1, 1967 to 1970 inclusive	$ 400,000
6% Series "A" sinking fund debentures payable May 1, 1983 with sinking fund payments to commence in 1971	1,500,000
Eastern Drug Services Limited:	
Amounts due to former shareholders of a subsidiary company payable in annual instalments of $31,136 with interest at the rate of 3%, due February 28, 1967 to 1969 inclusive	93,408
2% Notes guaranteed in equal amounts by Dead River Company, the parent of Estey & Curtis Company, (Limited) and National Drug and Chemical Company of Canada Limited payable in instalments of $100,000 due in 1967 and $62,500 due in each of the years 1968 to 1971 inclusive	350,000
	2,343,408
Less: Amounts payable in 1967 shown under current liabilities	231,136
	$2,112,272

NOTE 3 — MINORITY INTEREST:

	January 3, 1967	January 4, 1966
Eastern Drug Services Limited		
Shares	$ 499	$ —
6% Notes payable to Estey & Curtis Company, (Limited) subject to the terms of the agreement dated January 27, 1966 with National Drug and Chemical Company of Canada Limited	955,083	—
	955,582	—
Less: minority share of accumulated losses of Eastern Drug Services Limited	77,249	—
	878,333	—
Druggist shareholders in other subsidiary companies	1,538,810	1,468,331
	$2,417,143	$1,468,331

Under the terms of the agreement with Estey & Curtis Company, (Limited) the company has the option or an obligation to acquire all of the remaining shares of Eastern Drug Services Limited owned by Estey & Curtis Company, (Limited) at a price based on adjusted earnings of Eastern Drug Services Limited, payable in cash within a period not exceeding one year from date of acquisition.

At January 3, 1967 the amount the company would be obliged to pay for such shares, if required to purchase them, would be approximately $370,000. At such time the company would also become liable for the 6% Note Payable to Estey & Curtis Company, (Limited), with payment to be made in equal instalments over a period of five years.

NOTE 4 — CAPITAL STOCK:

Authorized —

244,854 cumulative 60¢ convertible preferred shares of $5 par value —

The Shareholders of which are entitled to receive $7 out of the assets of the company before any distribution to the holders of any other shares on liquidation, dissolution or winding up of the company.

750,000 common shares of no par value —

The following shares have been reserved for issuance:

(1) 84,005 shares against the conversion of preferred shares;
(2) 100,000 shares under an option granted to M. Loeb Limited at a price of $14.50 per share to be exercised before June 15, 1967;
(3) 25,000 shares under a share purchase plan for eligible employees of the company and its subsidiaries;
(4) 40,000 shares of which 35,675 shares are subject to options outstanding priced from $9.22 to $12.93, expiring in 1970 and 1971, granted to officers and senior employees of the company and its subsidiaries (including 22,000 shares for directors or officers).

Issued —	January 3, 1967	January 4, 1966
244,854 preferred shares of which 160,849 have been converted into common shares, including 203 converted during the year Outstanding 1967- 84,005; 1966-84,208	$ 420,025	$ 421,040
412,865 common shares including 1,363 issued during the year, 1,160 of which were issued under options for cash amounting to $12,974 and 203 of which were issued for preferred shares converted. Outstanding 1967- 412,865; 1966- 411,502	2,074,347	2,060,358
	$2,494,372	$2,481,398

Under the terms of the Trust Deed securing the outstanding debentures, the company may not pay dividends (other than stock dividends) on common shares:

(i) in excess of the aggregate of consolidated net earnings since January 1, 1965 as defined in the Supplemental Trust Deed, after payment of dividends on preferred shares.
(ii) that would reduce consolidated net current assets as defined in the Trust Deed to less than $6,000,000.

NOTE 5 — PROVISION FOR INCOME TAXES:

Income taxes for the year ended January 3, 1967 have been reduced by $278,000 with respect to the application of parent and certain subsidiaries' losses for current and prior years.

NOTE 6 — GAIN ON DISPOSAL OF FIXED ASSETS:

Gain on disposal of fixed assets includes a profit of $119,643 realized on the sale and leaseback, for a period of fifteen years, of certain land and buildings in the maritime provinces. The company has no option to repurchase these properties.

NOTE 7 — CONTINGENCIES AND LEASE COMMITMENTS:

The company is contingently liable as guarantor of bank loans to customers amounting to approximately $156,000.

Under long-term leases (exceeding five years) terminating at various dates up to 1991 the company is obligated to pay annual rentals currently aggregating $319,000 including $76,000 for retail facilities subleased to druggists.

Our Symbol of Service

Since ancient times symbols have been used to depict the character of organizations, heraldic groups and even countries.

Today, symbols have assumed increased importance in business, and are widely used to illustrate a company's identity and to lease in the minds of the public a clear impression of that company's qualities.

In addition to incorporating the basic ingredients of modern design, National's new symbol represents several factors.

The 'n' stands for the National Drug Group of Companies. The five spheres suggest molecular structure — representing the retail drug trade and pharmaceutical supply industry which we serve. Finally, the symbol has a feeling of movement, illustrating our main role of distribution.

In more specific terms, the five spheres represent our responsibilities to:

- *The retail pharmacists across Canada.*
- *The leading manufacturers who rely upon us for their distribution.*
- *The general public who depend on the quality of our manufacture.*
- *Our shareholders.*
- *Our employees whose well being is our continuing concern.*

Our Policy

As Canada's largest distributors to the retail drug trade, we are pledged to provide the highest quality service and products consistent with the requirement of the modern pharmacy.

It is our duty to provide the many leading manufacturers, who rely on our nation-wide organization for their distribution, with the most prompt and efficient handling of their products.

As manufacturers we assume the responsibility of producing and distributing only those products that meet the highest quality standards.

In continually seeking to improve our service in all areas, we are always mindful of the interests of our shareholders.

We also recognize the important role played by our employees upon whom the efficient operation of our business finally rests.

National Drug and Chemical Company of Canada Limited
and subsidiary companies